



**WALLINGFORD MUNICIPAL FEDERAL
CREDIT UNION**

88 SOUTH MAIN STREET
WALLINGFORD, CT 06492
Phone (203) 294 – 2015 or Fax (203) 294 – 2018

April 6, 2009

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Subject: Comments on Advanced Notice of Proposed Rulemaking for Part 704

On behalf of the Board of Directors, management and staff of the Wallingford Municipal Federal Credit Union, I would like to take this opportunity to comment on the recently issued Advance Notice of Proposed Rulemaking (ANPR) to 12 CFR Part 704.

We commend the NCUA for allowing natural person credit unions the opportunity to express our thoughts and viewpoints as a part of this evaluative process.

The Wallingford Municipal Federal Credit Union is a natural person credit union with \$14.7 million in assets with 2,220 members from the following groups:

- a) Employees of the Town of Wallingford;
- b) Employees of the Visiting Nurse Association of Wallingford;
- c) Employees of the Wallingford Public Library;
- d) Employees of the Holy Trinity School;
- e) Spouses of persons who died while within the field of membership of this credit union;
- f) Employees of this credit union;
- g) Persons retired as pensioners or annuitants from the above employment;
- h) Members of their immediate families; and
- i) Organizations of such persons.

Introductory comment:

“People Helping People” is the cornerstone of the credit union philosophy. The credit union movement has grown and become layered with a variety of service providers. These layers created a great distance between the people and those trying to help and provide service to them. The decision makers and the regulators from the upper levels seem to have forgotten that we are “People Helping People”. The focus of these layers of service providers is to compete for services and control of larger and larger pieces of the credit union movement. This need to grow has infused a virus in the industry. People need to understand that the credit union movement started because people didn’t want to deal with oppressive banking rules and controls.

The Role of Corporates in the Credit Union System:

Corporates offer an invaluable resource to Credit Unions. The Corporate is a business partner to credit unions and allows all credit unions access to the nation’s payment systems. Corporates were created to serve Credit Unions yet the competition between Corporates has created too much risk, especially with



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the history of ambivalent regulatory oversight. Corporates should be regionalized with standard regulations to eliminate the competition between Corporates and fee payment structures. Standardization would allow focus on service to their member credit unions which would allow all size credit unions to focus on their main purpose: to help people. NCUA should establish distinct capital requirements for payment system risk and the risk of other corporate services.

Liquidity services to credit unions for funding settlement shortfalls and short-term borrowing are a necessity given the limited access that credit unions have to outside borrowing resources. The professionals in the Corporate minimize the requirement for members to manage overdraft positions with the Federal Reserve. The issue of liquidity management became an issue as the events in the credit markets impacted institutions around the world. The ability to meet liquidity requirements will be an issue beyond that of Corporates managing credit facilities and investments. NCUA needs to monitor these positions and establish appropriate limitations.

Regulatory oversight must be heightened to ensure the skills of the examination team are commensurate with the risk of the Corporates it oversees. Corporates that have leveraged expanded authorities are all participants in the crisis at the root of the bailout. Regulations governing the permissible risk taken by these entities must be extensive to ensure credit unions don't have to deal with these types of issues in the future.

The current two-tiered system should be reduced to the "retail" level to minimize the operational redundancies and overhead. All regional Corporates should continually communicate and join efforts to ensure that research and development funding results in value-based products and services for all credit unions. US Central is a wholesale Corporate and should be eliminated. Regulators and Credit Unions alike have lost confidence in US Central. The new rules and regulations should regionalize pricing and eliminate the two-tiered system in order to avoid a repeat of the chaos that has crippled our system.

Corporate Capital:

The timing and implementation of regulation reforms with terms and conditions of capital must be adequate to allow for member owners' input into the revised structure of the corporate system. Seeking additional capital from members in either Tier 1 or Membership Capital will be burdensome given the current risk environment. Capital in the form of reserves and undivided earnings and paid in capital should be considered Tier 1 capital in accordance with GAAP. Regulators need to create a standard which should require all Corporates to adopt a risk-based capital methodology, as set forth by Basel Committee on Banking Supervision. Capital accounts with the Corporates have risk and dividend indications that should be proportionate with the inherent risk.

Permissible Investments:

Keep it simple and don't take excessive risks. The key components to managing an investment portfolio are identifying investment types, interest rate characteristics and cash flow requirements. Corporates must establish investment strategies to protect the funds deposited by member Credit Unions.



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Applications should be required before a Corporate is permitted to engage in complex security investments. The application must demonstrate a comprehensive understanding of the alternative investment. Approval must include the requirement that the Corporate use liquidity tracking, modeling, and have a risk mitigation strategy in place. Periodic assessments must be scheduled by the regulator and independent resources to confirm and diagnose the quality of each investment type.

Credit Risk Management:

Regulators should require and monitor the Corporates knowledge and continuing training associated with the variety of investment types managed by the Corporate. The rating of an investment should be information only and not used to determine the permissibility of a bond or the credit quality of an investment. Extensive stress testing of security holdings must continually be performed to determine potential credit issues based on performance. The current investment rating system has failed and NCUA should support efforts to require reform and require independent oversight of the three national rating organizations.

Asset Liability Management:

NCUA should require Corporates to perform net interest income modeling and stress testing. These are fundamental risk management measures that all institutions must include in their asset-liability management modeling. Testing requirement must be expanded to evaluate the impact of credit spread widening. The continued use of multiple stress testing and forecast modeling of net interest income are necessary to identify potential threats to equity.

Corporate Governance:

The Board of Directors and committees of a Corporate should be comprised of representatives of the member credit unions, not outside parties. Corporates must remain member-owned and governed by volunteers. Compensation for the volunteers should not be an option. Minimum standards and qualifications should be established and standardized throughout the corporate network with training continually available to new and current board and committee volunteers. Training volunteers requires a significant commitment by the Corporates and the individual volunteers, the concept of instituting term limits is wasteful of talent and counterproductive to developing quality and informed volunteers.

Board and committee members must continue to have access to outside resources to aide them in their review of all their products and services. Highly skilled and trained industry professionals are necessary to the continued stability of Corporates.

The question of allowing corporate credit members greater access to salary and benefit information for senior management seems simple and easy to answer. Full disclosure of their compensation and compensation package should be available. People in management positions need to be accountable and must maintain or in some cases regain the confidence and trust of the member credit unions they are hired to serve. Not disclosing salary and benefit packages creates a feeling of concealment which may lead to a loss of confidence of the member credit unions.



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Conclusion:

We need to remain as “People Helping People” at all levels of the Credit Union Movement. A colleague reminded us at a review meeting of this ANPR that Credit Unions and Corporates must continue to meet the seven cooperative principles of the industry:

1. Voluntary membership
2. Democratic member control
3. Members’ economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperative and
7. Concern for community

Any decision resulting from this ANPR must help the credit union industry regain confidence in the system and in one another. Your decision must solidify the philosophy at all levels of the Credit Union Movement that we are “People Helping People”.

Thank you again for the opportunity to comment.

Sincerely,
Richard T. Cassello
Manager/CEO